

DRAFT

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Telecommunications Division
Carrier Branch

RESOLUTION T-16755
October 30, 2003

R E S O L U T I O N

Resolution T-16755. Pinnacles Telephone Company (U-1013-C). General Rate Case filing in compliance with G.O. 96-A, Paragraph VI, and Decision Numbers 01-02-018 and 01-05-031.

By Advice Letter Nos. 188, 188A and 188B filed on December 23, 2002, April 11, 2003 and July 9, 2003, respectively.

Summary

This Resolution addresses the General Rate Case (GRC) filed by Pinnacles Telephone Company (Pinnacles) through Advice Letters (AL) Nos. 188, 188A and 188B in compliance with Decision 01-05-031. Pinnacles proposes a) no changes to its basic rates or charges, b) an intrastate ROR of 10.00%, the same rate of return granted in its GRC filing in 1997, c) \$401,342 in California High Cost Fund-A (CHCF-A) support for year 2004. This represents an increase in its CHCF-A draw for 2004 by 63.41% an increase of \$155,737 from its 2003 draw of \$245,605, and d) some minor tariff changes.

This resolution authorizes total intrastate revenue in the amount of \$727,811 for Pinnacles for the test year 2004. This represents a reduction of \$91,441 to Pinnacles' estimate of \$819,252 for total intrastate revenue for 2004. The Total Intrastate Rate Base amount adopted for Pinnacles is \$883,743 with an overall Intrastate Rate of Return of 10.00% for the test year 2004. Also authorized by this resolution is \$237,290 CHCF-A support for Pinnacles for test year 2004. This amount represents a decrease of \$10,768 or a 4.34% decrease from its CHCF-A 2003 support of \$248,058. This decrease is due to adjustments TD made to revenue, expense and rate base estimates.

Appendix A shows Pinnacles' Test Year 2004 Total Company Results of Operations in ALs 188, 188A and 188B at present rates. Appendix B to this resolution compares the Telecommunications Division (TD) and the Pinnacles' AL 188B Test Year 2004 Total Company Results of Operations before any CHCF-A adjustment. Appendix C compares TD's and Pinnacles' AL 188B Interstate and Intrastate Results of Operations before any CHCF-A adjustment to reflect the 10.00% intrastate rate of return. Appendix D compares TD's and Pinnacles' AL 188B Intrastate Results of Operations estimates after Pinnacles' proposed CHCF-A increase and after TD's proposed adjustments. Appendix E shows TD's calculation of the Net-to-Gross Multiplier and the change in the gross intrastate revenue requirement based on an adopted intrastate rate of return of 10.00%.

Background

Pinnacles Telephone Company (Pinnacles), a local exchange telephone utility based in San Benito County, California, provides local exchange telephone service within the boundaries of the Idria and Pinnacles exchanges. Pinnacles serves approximately 275 access lines in its two telephone exchanges.

In D.01-05-031, the California Public Utilities Commission (CPUC) set in motion the waterfall¹ provision in 2003 for seven² small LECs if they did not each file a General Rate Case (GRC) by the end of 2002. Pinnacles filed Advice Letter No. 188 on December 23, 2002, with a Test Year of 2004. Pinnacles filed its last GRC in 1997 through AL No. 115, and its latest intrastate results of operations was authorized by Resolution T-16004 dated April 9, 1997.³

In AL 188, Pinnacles proposes \$304,010 CHCF-A support in test year 2004. This is a \$58,405 increase in the CHCF-A support which represents a 24.00% increase in year 2003 CHCF-A support of \$245,605.

¹ The waterfall provision refers to the 6-year phase down of the CHCF-A funding level beginning in 1998, the year after the completion of a GRC. The funding levels are 100% of the for the first 3 years, i.e., 1998, 1999 and 2000; 80 % the fourth year, i.e., 2001, 50% the fifth year, i.e., 2002; and 0% thereafter.

² The seven companies are Calaveras Telephone Company, Cal-Ore Telephone Company, Ducor Telephone Company, Foresthill Telephone Company, Hornitos Telephone Company, Kerman Telephone Company, and Pinnacles Telephone Company.

³ In Resolution T-16004, Pinnacles was granted the following: a general rate reduction of \$24,535 for 1997, net revenue amount of \$81,260, a rate base amount of \$812,593, a Rate of Return of 10.00%. Effective May 1, 1997 through December 31, 1997, Pinnacles was required to refund monthly \$4.28 for each Business line, \$2.33 for each Residence line, \$0.50 credit for each one-quarter mile for Off-Premises Extension Service, \$1.46/line credit for overcharges to the 8.57% Billing Surcharge. These refunds expired December 31, 1997.

On April 11, 2003, Pinnacles filed AL No. 188A to include actual 2002 information. The 2002 data resulted in a change in the requested CHCF-A support. Pinnacles is requesting \$397,299 in CHCF-A support, which is a \$93,289 increase from the original request.

On July 9, 2003, Pinnacles filed AL No. 188B to include Public Program Branch audit cost of \$7,084 for this rate case. Pinnacles is requesting \$401,342 in CHCF-A support, which is a \$97,332 increase from the original request AL 188.

Notice/Protests

Pinnacles states that copies of the Advice Letter and Advice Letter Supplements were mailed to competing and adjacent utilities and/or other utilities. Notice of AL 188 was published in the Commission Daily Calendar of December 27, 2002 and notices of ALs 188A and 188B were published in the Commission Daily Calendar of April 18, 2003, and July 14, 2003, respectively. The ALs 188 and 188A filings were noticed to customers by bill insert on December 20, 2002 and May 1, 2003, respectively. AL 188B was not noticed to customers because only minor revisions were made to the filing. No protest to these Advice Letter filings has been received.

TD held a Public Meeting in Paicines on May 20, 2003, at which time Pinnacles was given an opportunity to explain its filing to its customers and its customers were given the chance to ask questions of Pinnacles and the TD staff. Pinnacles' customers were given notice of the Public Meeting through bill insert. No customers attended the Public Meeting.

Discussion

Results of Operations

Appendix A shows Pinnacles' Test Year 2004 Total Company Results of Operations through ALs 188, 188A and 188B at present rates.

Appendix B compares total company results of operations for test year 2004, as estimated by the TD and Pinnacles at present rates.

TD calculates in test year 2004 that Pinnacles will earn a total company overall rate of return of 3.74% at present rates as compared to Pinnacles' calculation of 1.20%. Since TD concludes Pinnacles is earning below the Commission's target of an overall rate of return of 10.00%, TD's estimates for Pinnacles reflect revisions to Pinnacles' estimates of revenues, expenses, and rate base as discussed below.

Total Operating Revenues

In determining the test year total company revenues, TD accepts Pinnacles' 2.02% percent increase used for access revenues that are derived from billings. Based on its review of access line growth and field inspection of the areas served by Pinnacles, TD accepts the 2.02% growth rate increase used by Pinnacles.

Pinnacles estimates local revenues by multiplying the forecasted units (e.g. number of subscribers and/or minutes of uses) by the tariff rates and charges. Local units were forecasted using historical growth information.

TD agrees that Pinnacles' model properly estimates Interstate Access Revenues as a function of the total company rate base and expense. The differences in the calculation of Interstate Access Revenues for Test Year 2004 results from differing estimates of Total Company Results of Operations between Pinnacles and TD estimates. TD's estimate of 2004 Interstate Access Revenue of \$434,443 is \$80,820 or 18.60% lower than Pinnacles' estimate.

Differences between Pinnacles' estimate of CHCF-A revenue and TD's estimate result from the goal of adopting 10.00% intrastate rate of return.

Uncollectibles

Uncollectibles are based on bad debts associated with local revenue and intrastate access revenues. Pinnacles estimates local debt at \$110 and contends that it will remain consistent with historical figures. However, Pinnacles explains that the, "Bad Debt on Intrastate Access Revenue was historically part of the settlement process and as such was absorbed by the settlement pools. Now that Pinnacles is no longer in the settlement pool bad debt on intrastate access is a greater risk. This was highlighted by the recent bankruptcy [sic] of WorldCom and Global Crossing, which account for the large bad debt in 2002". Pinnacles assumes that the intrastate access bad debt it incurred in 2002 of \$9,100 due to the bankruptcy will continue in 2004.

TD does not agree with Pinnacles' estimate of test year 2004 uncollectibles. Although Pinnacles' estimate for local bad debt of \$110 reasonable, Pinnacles' uncollectible estimate of \$9,500 for intrastate access revenue bad debt is not reasonable. The recent WorldCom and Global Crossing bankruptcies are a one-time occurrence and Pinnacles will not incur similar bad debt on an annual recurring basis. TD therefore, disallows \$9,500 of bad debt associated with intrastate access revenue and estimates intrastate uncollectibles to be \$110 for the test year 2004.

In the event that Pinnacles incurs similar access revenue bad debt as the result of continued bankruptcy filings by interexchange carriers and does not receive remedy from applicable court decisions, Pinnacles is then encouraged to seek remedy from the

Commission for those lost revenue amounts. Pinnacles may not seek remedy from the Commission for those debts incurred due to bankruptcy filings until the bankruptcy proceedings have been finalized and monies dispersed, if any. This delay is required to avoid the potential of Pinnacles double recovering the bad debt it has incurred as the result of bankruptcy filings.

Total Operating Expenses

A comparison of TD's and Pinnacles' computation of total company operating expenses shows that overall Pinnacles' estimate is \$1,134,296 or 9.98% higher than TD's estimate of \$1,031,368 (Appendix B). The differences are discussed below.

For operating expenses, Pinnacles forecasted 2003 and 2004 expenses based on the following methodology. First, historical four-year average (1999 to 2002) percentages were developed for Labor (11.46%) and Non-Labor (4.63%) related expenses. Then the four-year average percentages were applied first to the 2002 sub-account details to generate 2003 forecast expenses. Pinnacles applied these percentages to sub-accounts for the Plant Specific, Plant Non-Specific, Customer Operations, and Corporate Operations expense categories, based on details of each sub-account (i.e., Labor: Salaries & Wages, Benefits; Non-Labor: Rents, Clearances, and Other). The same percentages were then applied to the 2003 forecast expense estimates to generate the 2004 Test Year expenses estimates. Pinnacles believes this methodology to be reasonable for a small company.

TD does not agree with Pinnacles' estimated labor related and other expenses growth rates. Instead, TD used Pinnacles' recorded years 2000, 2001 and 2002 labor and non-labor expenses and applied the constant dollar method to estimate Pinnacles' 2004 expenses. The constant dollar method is used to convert nominal dollars to inflation-adjusted figures. This is done by using the inflation factors for each year and compounding them to 2002 dollars. The constant dollar method is applied to benchmark the price of a basket of utility purchases in various years to a selected base year. While expenses have been increasing in nominal dollars, when one applies the constant dollar method and adjusts the recorded figures to base year constant dollars, there is less of a variance and in many cases, the inflation-adjusted figures remained relatively flat. TD used Pinnacles' recorded expense figures as reflected in the annual reports for the years 2000, 2001 and 2002⁴ and then applied the recorded inflation factors for labor and non-labor for each year.⁵

⁴ Form M Schedule I-1 (FCC Armis 43-02 Report Format) of Pinnacles' Annual Reports for 2000, 2001 and 2002.

⁵ TD used the Office of Ratepayers Advocates estimates of Non-Labor and Wage Escalation Factors for 2002-2004 from the January 2003 Global Insight U.S. Economic Outlook as follows:

Year	Labor	Non-labor
2000	1.030	1.035

Both TD and Pinnacles include rate case expense (\$90,000) which is amortized over 3 years in the Corporate Operation account.

Pinnacles also included rate case expense in the amount of \$7,084 that it incurred due to an audit conducted by the Public Programs Branch. Since this audit does not occur annually, this rate case expense should be amortized over a three-year period. Three years are a reasonable period since CHCF-A funding remains at 100% only for the first three years after a GRC at which time the funding is automatically reduced 20%. Conceivably, a Small LEC could file a GRC after every three years to retain 100% CHCF-A support. Therefore, TD recommends that the rate case expenses in the amount of \$2,361 (\$7,084 amortized over three years) should be included in the 2004 test year.

In year 2002, Pinnacles implemented its *first* qualified pension plan. Pinnacles used the 2002 actual benefit amount of \$120,530 and applied an escalation factor of 11.46% for 2003 and 2004 to derive the test year estimate of \$149,725. This escalation factor is excessive, and instead TD used the ORA recommended labor escalation factors of 2003 and 2004 to derive its test year estimate of \$125,275.

Taxes

The differences in the tax estimates between Pinnacles and TD are due to differences in each party's estimate of revenues and expenses. TD and Pinnacles both used a Corporate State Franchise Tax (CCFT) rate of 8.84% and a Federal Income Tax rate of 34.00%.

Rate Base

In computing plant in service, TD reviewed Pinnacles' 2002 annual report and examined the additions and retirements as reflected in the annual report vis-à-vis the data reflected in Pinnacles' submitted GRC proposal. TD reviewed Pinnacles' telephone plant in service (TPIS) and short term telephone plant under construction (1.2% of TPIS for 2002) estimates for 2004 and found them to be consistent with TD's growth forecast review.

Pinnacles calculated depreciation expense and accumulated depreciation by using the depreciation rates previously adopted by the Commission as part of its 1997 GRC. TD reviewed Pinnacles' depreciation rates and found them to be reasonable.

2001	1.030	1.000
2002	1.028	1.000
2003	1.016	1.006
2004	1.023	1.012

Pinnacles estimated the test year Materials and Supplies (M&S) amount by taking the ratio of the 2002 average M&S to the 2002 average TPIS. The 2002 ratio of 4.96% was then applied to the forecasted 2003 and 2004 TPIS to derive the 2004 M&S. TD however, disagrees with Pinnacles' methodology. Instead of using only a one-year data point to derive the ratio, TD took the five-year average (1998-2002) of M&S to TPIS. Since five years of historical data were available, TD used more data points to estimate a more reliable forecast. TD then applied the five-year average ratio of 2.55% to the forecasted TPIS to derive the 2004 M&S. Therefore, TD recommends that the average M&S of \$87,413 (derived by applying 2.55% to the forecasted 2004 TPIS) be included as part of the 2004 test year rate base.

Pinnacles' Deferred Income Taxes (DIT) were estimated by the utility by taking the ratio of the 2002 average DIT to the 2002 average TPIS. A negative 3.44% ratio was then applied to the forecasted 2003 and 2004 TPIS to derive the 2004 DIT. TD, however, disagrees with Pinnacles' methodology. Instead of using only a one-year data point to derive the ratio, TD took a five-year average (1998-2002) of DIT to TPIS ratio. Since five years of historical data were available, using more data points to forecast from historical data will produce a more accurate forecast. TD then applied the five-year average ratio of negative 5.68% to its forecasted test year TPIS to derive the 2004 DIT. Therefore, TD recommends that the average DIT of negative \$194,707 (derived by applying negative 5.68% to the forecasted 2004 TPIS) be included in the rate base.

Both TD and Pinnacles used the Simplified Method described in Standard Practice U-16 to calculate working cash. TD's estimate of intrastate working cash at \$40,596 is 17.53% lower than that computed by Pinnacle (Appendix D). This difference is due to TD's lower expense estimates.

Except for Materials and Supplies, Working Cash and Deferred Income Taxes, TD accepts Pinnacles' other estimated rate base amounts for test year 2004.

Separations

Pinnacles provides both intrastate and interstate telecommunications services, subject to the regulation of the CPUC and FCC, respectively. Because Pinnacles' property serves both jurisdictions, the utility's expenses, taxes, investments, and reserves are allocated (separated) between interstate and intrastate services according to FCC rules. TD reviewed Pinnacles' separation factors and finds them to be reasonable. Appendix C compares Pinnacles' and TD staff's total company interstate and intrastate results of operations for test year 2004 using these separation factors.

Cost of Capital

Pinnacles requests an overall intrastate rate of return of 10.00%, the rate of return authorized by Resolution T-16004.

The Return on Equity for all rural ILECs would be the same since the systematic and non-diversifiable risks faced by all rural ILECs are similar. As a matter of practice, Decision D.97-04-036 in A.95-12-073⁶ adopted an 'overall' rate of return of 10.00% for all rural ILECs. The risks faced by rural ILECs appear similar today as in the recent past, therefore TD recommends that the Commission approve Pinnacles' request for an overall rate of return of 10.00% at this time.

Net-to-Gross Multiplier

The net-to-gross multiplier indicates the unit change in gross revenues required to produce a unit change in revenues. Appendix E shows TD's computation of Pinnacles' net-to-gross multiplier. The net-to-gross multiplier of 1.66207 means that a change of \$1,662 in gross revenue would be required to produce a change of \$1,000 in net revenue. For Pinnacle, based on an Intrastate rate base of \$883,743 and rate of return of 10%, TD estimates the intrastate revenue requirement change required an increase of \$80,117

CHCF-A Support

D.01-02-018 approved Settlement Transition Agreements (STAs) between Pacific Bell and the small Local Exchange Carriers (small LECs). Monies that Pacific Bell paid the small LECs through toll and access pool settlements were replaced by authorized draws from the CHCF-A. The CHCF-A itself was originally established by D.85-06-115 as a means of subsidizing reasonable basic exchange rates for the customers of small LECs that adopted Pacific's statewide average toll, toll private line, and access charges (settlement pools). D.01-02-018 required the small LECs' replacement funding for the STAs be subject to the same rules that apply to current draws from the CHCF-A, namely, basic residential rates shall be increased to a ceiling equal to 1.5 times the urban rate as necessary, and both the means test and the waterfall provisions should apply.

TD calculated Pinnacles' CHCF-A support for test year 2004 at present rates to be \$217,831 (Appendix B, column A). The CHCF-A 2004 support is derived from using Pinnacles' 2003 initial draw of \$248,058, adding the \$242,232 National Exchange Carriers Association, Inc. (NECA) estimated USF Federal support for 2003, and subtracting Pinnacles' projected 2004 USF Federal support of \$333,117. Federal USF support is based on the 2004 projected payments for California Exchange carriers as filed by the NECA on October 1, 2003 with the Federal Communications Commission.

⁶ In D.97-04-036 the Commission authorized California-Oregon Telephone Company a 10.00% return on rate base for its 1997 test year as requested in A.95-12-073 (California-Oregon's 1997 General Rate Case application).

However, if Pinnacles is authorized to receive \$157,173 in CHCF-A support, then based on TD's adjustments in revenues, expenses and rate base, Pinnacles' intrastate rate of return would be 4.55% (Appendix C, column F), which would be less than the 10.00% Commission's target. Therefore, for test year 2004, TD's computation of Pinnacles' adopted CHCF-A requirement is \$237,290 based on its recommended revenues, expenses rate base and overall intrastate rate of return of 10.00% as shown in Appendix D, column E.

Proposed Tariff Changes

Pinnacles also proposes change in the following tariffs:

1. *Include SBC California rates and charges for E9-1-1 to its Schedule No. A-20, E9-1-1 Emergency Service.*

The current tariff does not have a specific money amount. It indicates that Pinnacles' rates, conditions, and charges are set forth in Pacific Bell's Schedule CAL. P.U.C. No. A9, Section 9.2.3. The proposed rates and charges will be those Pinnacles pays SBC California for maintaining the data base and tandem switching. TD finds Pinnacles' request to add the E9-1-1 rates and charges to Schedule No. A-20, E9-1-1 Emergency Service to be reasonable, and recommends the Commission should adopt Pinnacles' request.

2. *Remove a statement in Schedule No. A-21, Inside Wiring Maintenance Service, concerning disconnection for nonpayment of Inside Wiring charges..*

Special Conditions 4 in Schedule No. A-21, Inside Wiring Maintenance (IWM) Service reads: " Nonpayment of charges for IWM services are subject to disconnection of service."

D.00-11-015 eliminated Pinnacles' authority to disconnect basic residential and single line business, Flat Rate and/or Measured Rate service for nonpayment of any charges other than non-recurring and recurring charges for basic residential and single line business, Flat rate and Measured Rate service, including mandated surcharges and taxes calculated on same.

TD reviewed the current tariff and finds Pinnacles' request to remove Special Conditions 4 in Schedule No. A-21 to be reasonable. TD recommends Commission approval of Pinnacles' request.

3. *Add references to Schedule No. B-6, Access Service for the CTF (California Teleconnect Fund) discounts for qualified entities and services.*

The reference specifies that qualifying schools, libraries, government owned hospital and/or health clinics, and community based organizations shall be entitled to a discount for purchasing T-1, DS-3 or their functional equivalents and other such services that the Federal Communications Commission may determine are appropriate.

Pinnacles will be reimbursed from the CTF for the difference between tariff rate and the discounted rate.

TD reviewed Pinnacles' proposed tariff and finds Pinnacles' request to add CTF discounts for qualified entities and services to be reasonable. TD staff recommends Commission approval of Pinnacles' request.

4. Remove analog services in Schedule No. G-1, for which Pinnacles has no customers.

Pinnacles states that new customers, who want intraLATA Leased Line and Private Line Telephone Service, will be offered the rates and charges in Schedule No. B-6, Access Service.

TD reviewed Schedule No. B-6 and the utility proposed text changes. TD finds Pinnacles request to remove services for which there are no customers to be reasonable, because the Commission routinely approves these requests. (see Resolution No. T-9597, dated March 22, 1977 which authorizes the Executive Director to grant requests for the withdrawal of communications utility services for which there are no customers and where there are no customer requests for the services.)

TD recommends that the Commission approval these changes.

Comments

In accordance with P.U. Code Section 311 (g), TD mailed a copy of the original draft resolution on September 30, 2003 to Pinnacles and other interested parties. Comments received on a timely basis will be addressed in any final resolution.

On October 13, 2003, Cooper, White and Cooper, LLC (Cooper) filed timely comments on behalf of Pinnacles. Cooper raised the following issues with the draft resolution:

1. The draft resolution (DR) understates Pinnacles' test year expenses.
2. The DR excludes uncollectibles for intrastate access revenue.
3. The DR references proposed 2003 CHCF-A draw instead of actual 2003 CHCF-A draw.

Pinnacles' comments on expenses are primarily concerned with the method that TD used to estimate expenses. Pinnacles argues that the methodology used by TD do not properly reflect Pinnacles' operating expenses.

TD used CDM to forecast Pinnacles' test year expenses. The CDM is used to convert nominal dollars to inflation adjusted figures. This is done by using the recorded inflation factors for three years and compounding them to 2002 dollar. There is less variance and in many cases the inflation adjusted figures have remained relatively flat. The CDM has been the preferred methodology and endorsed by the CPUC for analyzing recorded data and has been an accepted methodology in traditional rate cases.

In 1997 small telephone companies' GRCs, TD used CDM to forecast test year expenses for Cal-Ore Telephone Co., Calaveras Telephone Co. and Ducor Telephone Co.

TD used the Office Ratepayers Advocates estimates of Non-Labor and Wage Escalation Factors to estimate test year expenses. For test year, TD applied CDM to forecast operating expenses yet TD included rate case expense and Public Program Branch audit expense. In year 2002, Pinnacles implemented its *first* qualified pension plan. TD used recorded year 2002 benefit expense instead of CDM 2002 benefit expense to forecast test year expenses. TD has shown that the CDM is appropriate and reasonable.

Based on its reviewed of access line growth and field inspection of the area served by Pinnacles, TD accepted the 2.02% growth rate increase used by Pinnacles. Pinnacles alleges TD assumed growth in revenue yet no growth at all in expenses. Most importantly, ***expenses do not increase linearly with access line growth.***

TD disallowed \$9,500 in bad debt associated with intrastate access revenue; in its comments on the draft resolution, Pinnacles acknowledges that TD encourages it to seek remedy from the Commission for lost access revenue recovery, but argues that TD does not specify a procedure for securing such a remedy outside the context of a general rate case filing.

Pinnacles proposes the Commission include an ordering paragraph specifying the process for Pinnacles to be made whole for all uncollectible access revenue. Pinnacles suggests that the Commission should order Pinnacles to include net uncollectible access revenue in its annual CHCF-A filing.

TD responds that to allow Pinnacles to recover the net uncollectible revenue from its CHCF-A annual filings would not ensure that Pinnacles had made *every* reasonable effort to collect access revenues from either bankrupt carriers and/or from those carriers that are overdue in paying access revenues to Pinnacles. TD reiterates its

position in the draft resolution that Pinnacles not seek remedy from the Commission until bankruptcy proceedings (if any) have been finalized and monies dispersed. Only then does TD recommend that Pinnacles file a specific application with the Commission to seek recovery of net uncollectible access revenues. TD still firmly believes that today, there are sufficient safeguards in place to mitigate and minimize the effects of a situation similar to that incurred by WorldCom.

We agree with TD's position, and decline to allow, at this time, Pinnacles' request to seek recovery of net uncollectible access revenues in annual CHCF-A filings. If at any time Pinnacles believes its overall revenue are eroded such that it is in a precarious financial position, Pinnacles should file a specific application to seek recovery of any net uncollectible access revenues. Absent this application filing, we may give consideration to reviewing Pinnacles' net historical uncollectible access revenue in its next GRC filing provided Pinnacles can fully substantiate that it has exhausted all avenues in attempting to collect from delinquent carriers.

However for Pinnacles, the company has specifically identified \$4,395 in uncollectible revenue associated with the bankruptcy of MCI/WorldCom. Pinnacles provided documented substantiation of the amount. TD believes that it is appropriate to include the \$4,395 as one -time uncollectible revenue for 2004 only. We concur in TD's recommendation and will provide recovery for the \$4,395 in 2004 only.

Pinnacles asserted that the DR incorrectly states Pinnacles' 2003 CHCF-A draw. The DR references the figure provided to TD by Pinnacles in its workpapers and supplements, TD has updated the DR to reflect Pinnacles' authorized 2003 CHCF-A draw.

TD has updated the Universal Service Fund (USF) support amounts authorized for TY 2004 from the National Exchange Carriers Association (NECA) and received by TD on October 2, 2003. The new USF support amount for Pinnacles is \$333,117 and TD has updated its calculations involving USF amounts in Pinnacles' Results of Operations tables.

Findings

1. Pinnacles filed its GRC by Advice Letter Nos. 188, 188A and 188B on December 23, 2002, April 11, and July 9, 2003, respectively for Test Year 2004 in compliance with Decision 01-05-031.
2. Pinnacles requests the following for test year 2004 (Appendix D, column A):
 - No changes in its basic rate or charges;

- An intrastate ROR of 10.00%, the same return granted in its GRC filing in 1997, with a total intrastate rate base amount of \$991,665;
 - A California High Cost Fund-A (CHCF-A) support of \$401,342 for 2004, representing an increase of \$155,737 or 63.41% increase from the CHCF-A 2003 support of \$245,605;
 - Tariff revisions as described in the Discussion section of this resolution.
3. The Telecommunications Division recommends the following for Pinnacles for test year 2004 (Appendix D, column B):
- No changes in its basic rate or charges;
 - An intrastate ROR of 10.00% with a total intrastate rate base amount of \$883,743;
 - A California High Cost Fund-A (CHCF-A) support of \$237,290 for 2004, representing a decrease of \$10,768 or 4.34% decrease from the CHCF-A 2003 support of \$248,058;
 - Tariff revisions as described in the Discussion section of this resolution.
4. The difference in estimates for Pinnacles and TD is the result of the use of different assumptions and methodologies for estimating revenues, expenses, and rate base.
5. The Commission finds TD's methodology in estimating revenues to be reasonable. The Commission therefore, adopts TD's recommended intrastate revenues as shown in Appendix D, column E).
6. The Commission finds TD's methodology of using the constant dollar method in estimating expenses to be reasonable and adopts TD's recommended test year 2004 total company expenses contained in Appendix B and intrastate expenses identified in Appendix D.
7. The Commission accepts TD's recommended overall intrastate rate of return of 10.00% for Pinnacles for test year 2004.
8. Because of the WorldCom bankruptcy, there is a one-time uncollectible amount of \$4,395. The Commission finds TD's recommended \$241,685 (See Appendix E) CHCF-A support for Pinnacles for test year 2004 to be acceptable.
9. The Commission finds that Pinnacles' depreciation rates previously adopted by the Commission as part of its 1997 GRC to be acceptable for rate making purposes for test year 2004.

10. The Commission finds TD's methodology in estimating rate base to be reasonable. The Commission therefore adopts TD's recommended intrastate rate base as shown in Appendix D.
11. The Commission accepts TD's recommendation to approve Pinnacles' proposed tariff revisions outlined in the Discussion on section (Proposed Tariff Changes) of this resolution.
12. Commission approval is based only on the specifics of this Advice Letter.

THEREFORE, IT IS ORDERED that:

1. The intrastate revenues, expenses, and rate base amounts for test year 2004 identified in Appendix D, column (E) are adopted for Pinnacles Telephone Company.
2. The overall intrastate rate of return of 10.00% is adopted for Pinnacles for test year 2004.
3. The Commission finds that the additional amount of \$4,395 for uncollectible revenue due to the WorldCom bankruptcy is reasonable and therefore the total Pinnacles Telephone Company's CHCF-A draw for year 2004 is \$241,685.
4. The depreciation rates submitted by Pinnacles Telephone Company in support of its General Rate Case Advice Letter No. 188 are adopted for rate making purposes for test year 2004.
5. Pinnacles is granted authority to revise tariff changes described in AL Nos. 188, 188A and 188B. The revised tariff sheets submitted with AL No. 188 will be effective on January 1, 2004.

This Resolution is effective today.

I hereby certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on October 30, 2003. The following Commissioners approved it:

Resolution T-16755
Pinnacles ALs 188, 188A and 188B/JHS

October 30, 2003

WILLIAM AHERN
Executive Director

APPENDIX A

PINNACLES TELEPHONE COMPANY TOTAL COMPANY RESULTS OF OPERATIONS AL FILINGS 188, 188A AND 188B TEST YEAR 2004 AT PRESENT RATES

	PINNACLES AL 188 23-Dec-02 (A)	Difference (B)=(C)-(A)	PINNACLES AL 188A 11-Apr-03 (C)	Difference (D)=(E)-(C)	PINNACLES AL 188B 9-Jul-03 (E)
OPERATING REVENUES:					
1 Local Network Services	70,191	903	71,094	-	71,094
2 Local Service - CHCF - A	204,257	13,574	217,831	-	217,831
3 Interstate USF	283,580	(13,574)	270,006	-	270,006
4 Network Access Services:				-	
5 Intrastate	83,448	(7,383)	76,065	-	76,065
6 Interstate	466,296	46,126	512,422	2,841	515,263
7 Miscellaneous	8,536	3,865	12,401	-	12,401
8 Less: Uncollectible Revenue	(11,903)	2,293	(9,610)	-	(9,610)
9 Total Oper. Revenue	1,104,405	45,804	1,150,209	2,841	1,153,050
OPERATING EXPENSES:					
10 Plant Specific	177,155	70,854	248,009	-	248,009
11 Plant Non-Specific (less depr.)	91,274	25,141	116,415	-	116,415
12 Customer Operations	103,406	7,945	111,351	-	111,351
13 Corporate Operations	320,799	14,750	335,549	7,084	342,633
14 Subtotal	692,634	118,690	811,324	7,084	818,408
15 Depreciation & Amortization	288,908	2,638	291,546	-	291,546
16 Other Taxes	11,590	335	11,925	-	11,925
17 State Income Taxes	9,837	(6,707)	3,130	(374)	2,756
18 Federal Income Taxes	34,488	(23,511)	10,977	(1,316)	9,661
19 Total Oper. Expenses	1,037,457	91,445	1,128,902	5,394	1,134,296
20 Net Revenues	66,948	(45,641)	21,307	(2,553)	18,754
AVERAGE RATE BASE:					
21 Telephone Plant-in-Service	3,429,037	(1,092)	3,427,945	-	3,427,945
22 Tel. Ptl Under Construction	18,174	22,652	40,826	-	40,826
23 Material & Supplies	177,785	(7,720)	170,065	-	170,065
24 Working Cash	83,234	(3,582)	79,652	686	80,338
25 Less: Deprec. Res.	(2,047,789)	3,499	(2,044,290)	-	(2,044,290)
26 Def. Taxes	(144,994)	27,077	(117,917)	-	(117,917)
27 Customer Deposit	-	-	-	-	-
28 Total Rate Base	1,515,447	40,834	1,556,281	686	1,556,967
29 Rate of Return	4.42%		1.37%		1.20%

APPENDIX B

PINNACLES TELEPHONE COMPANY TOTAL COMPANY RESULTS OF OPERATIONS AT PRESENT RATES TEST YEAR 2004

		PINNACLES		UTILITY EXCEED STAFF	
		AL 188B	TD	(\$)	(%)
		(A)	(B)	AMOUNT	DIFF.
				(C)=(A)-(B)	(D)=(C)/(B)
OPERATING REVENUES:					
1	Local Network Services	71,094	71,094	-	0
2	Local Service - CHCF - A	217,831	157,173	60,658	38.59
3	Interstate USF	270,006	333,117	(63,111)	-18.95
4	Network Access Services:				
5	Intrastate	76,065	76,065	-	0
6	Interstate	515,263	434,443	80,820	18.60
7	Miscellaneous	12,401	12,401	-	0
8	Less: Uncollectible Revenue	(9,610)	(110)	(9,500)	8636.36
9	Total Oper. Revenue	<u>1,153,050</u>	<u>1,084,183</u>	<u>68,867</u>	<u>6.35</u>
OPERATING EXPENSES:					
10	Plant Specific	248,009	210,701	37,308	17.71
11	Plant Non-Specific (less depr.)	116,415	89,150	27,265	30.58
12	Customer Operations	111,351	96,822	14,529	15.01
13	Corporate Operations	342,633	297,881	44,752	15.02
14	Subtotal	<u>818,408</u>	<u>694,554</u>	<u>123,854</u>	<u>17.83</u>
15	Depreciation & Amortization	291,546	291,546	-	0
16	Other Taxes	11,925	11,925	-	0
17	State Income Taxes	2,756	7,616	(4,860)	(63.81)
18	Federal Income Taxes	9,661	26,704	(17,043)	(63.82)
19	Total Oper. Expenses	<u>1,134,296</u>	<u>1,032,346</u>	<u>101,950</u>	<u>9.88</u>
20	Net Revenues	<u>18,754</u>	<u>51,837</u>	<u>(33,083)</u>	<u>(63.82)</u>
AVERAGE RATE BASE:					
21	Telephone Plant-in-Service	3,427,945	3,427,945	-	0
22	Tel. Ptl Under Construction	40,826	40,826	-	0
23	Material & Supplies	170,065	87,413	82,652	94.55
24	Working Cash	80,338	68,355	11,983	17.53
25	Less: Deprec. Res.	(2,044,290)	(2,044,290)	-	0
26	Def. Taxes	(117,917)	(194,707)	76,790	(39.44)
27	Customer Deposit	-	-	-	
28	Total Rate Base	<u>1,556,967</u>	<u>1,385,541</u>	<u>171,426</u>	<u>12.37</u>
29	Rate of Return	<u>1.20%</u>	<u>3.74%</u>		

APPENDIX C

PINNACLES TELEPHONE COMPANY RESULTS OF OPERATIONS AT PRESENT RATES INTERSTATE AND INTRASTATE TEST YEAR 2004

	PINNACLES			TD		
	TOTAL COMPANY (A)=(B)+(C)	INTERSTATE (B)	INTRASTATE (C)	TOTAL COMPANY (D)=(E)+(F)	INTERSTATE (E)	INTRASTATE (F)
OPERATING REVENUES:						
1 Local Network Services	71,094		71,094	71,094		71,094
2 Local Service - CHCF - A	217,831		217,831	157,173		157,173
3 Interstate USF	270,006		270,006	333,117		333,117
4 Network Access Services:						
5 Intrastate	76,065		76,065	76,065		76,065
6 Interstate	515,263	515,263		434,443	434,443	
7 Miscellaneous	12,401	2,046	10,355	12,401	2,046	10,355
8 Less: Uncollectible Revenue	(9,610)		(9,610)	(110)		(110)
9 Total Oper. Revenue	1,153,050	517,309	635,741	1,084,183	436,489	647,694
OPERATING EXPENSES:						
10 Plant Specific	248,009	92,904	155,105	210,701	78,929	131,772
11 Plant Non-Specific (less depr.)	116,415	47,276	69,139	89,150	36,204	52,946
12 Customer Operations	111,351	43,449	67,902	96,822	37,780	59,042
13 Corporate Operations	342,633	150,313	192,320	297,881	130,680	167,201
14 Subtotal	818,408	333,942	484,465	694,554	283,593	410,961
15 Depreciation & Amortization	291,546	128,572	162,974	291,546	128,572	162,974
16 Other Taxes	11,925	4,935	6,990	11,925	4,935	6,990
17 State Income Taxes	2,756	4,408	(1,652)	7,616	1,714	5,902
18 Federal Income Taxes	9,661	15,454	(5,793)	26,704	6,010	20,694
19 Total Oper. Expenses	1,134,296	487,311	646,985	1,032,346	424,823	607,523
20 Net Revenues	18,754	29,998	(11,244)	51,837	11,666	40,171
AVERAGE RATE BASE:						
21 Telephone Plant-in-Service	3,427,945	1,392,088	2,035,857	3,427,945	1,392,088	2,035,857
22 Tel. Ptl Under Construction	40,826	16,579	24,247	40,826	16,579	24,247
23 Material & Supplies	170,065	44,999	125,066	87,413	23,129	64,284
24 Working Cash	80,338	32,625	47,713	68,355	27,759	40,596
25 Less: Deprec. Res.	(2,044,290)	(864,530)	(1,179,760)	(2,044,290)	(864,530)	(1,179,760)
26 Def. Taxes	(117,917)	(56,459)	(61,458)	(194,707)	(93,226)	(101,481)
27 Customer Deposit	-			-		
28 Total Rate Base	1,556,967	565,302	991,665	1,385,542	501,800	883,742
29 Rate of Return	1.20%	5.31%	-1.13%	3.74%	2.32%	4.55%

APPENDIX D

PINNACLES TELEPHONE COMPANY INTRASTATE RESULTS OF OPERATIONS AT ADOPTED RATE OF RETURN TEST YEAR 2004

			UTILITY EXCEED STAFF			
			(\$)	(%)		
PINNACLES			AMOUNT	DIFF.	ADOPTED	
(A)			(C)=(A)-(B)	(D)=(C)/(B)	(E)	
TD						
(B)						
OPERATING REVENUES:						
1	Local Network Services	71,094	71,094	-	0	71,094
2	Local Service - CHCF - A	401,342	237,290	164,052	69.14	237,290
3	Interstate USF	270,006	333,117	(63,111)	-19	333,117
4	Network Access Services:					
5	Intrastate	76,065	76,065	-	0	76,065
6	Interstate	-	-			-
7	Miscellaneous	10,355	10,355	-	0	10,355
8	Less: Uncollectible Revenue	(9,610)	(110)	(9,500)	8636	(110)
9	Total Oper. Revenue	819,252	727,811	91,441	12.56	727,811
OPERATING EXPENSES:						
10	Plant Specific	155,105	131,772	23,333	17.71	131,772
11	Plant Non-Specific (less depr.)	69,139	52,946	16,193	30.58	52,946
12	Customer Operations	67,902	59,042	8,860	15.01	59,042
13	Corporate Operations	192,320	167,201	25,119	15.02	167,201
14	Subtotal	484,466	410,961	73,505	17.89	410,961
15	Depreciation & Amortization	162,974	162,974	-	0	162,974
16	Other Taxes	6,990	6,990	-	0	6,990
17	State Income Taxes	14,570	12,985	1,585	12.21	12,985
18	Federal Income Taxes	51,085	45,526	5,559	12.21	45,526
19	Total Oper. Expenses	720,085	639,436	80,649	12.61	639,436
20	Net Revenues	99,167	88,375	10,792	12.21	88,375
AVERAGE RATE BASE:						
21	Telephone Plant-in-Service	2,035,857	2,035,857	-	0	2,035,857
22	Tel. Ptl Under Construction	24,247	24,247	-	0	24,247
23	Material & Supplies	125,066	64,284	60,782	94.55	64,284
24	Working Cash	47,713	40,596	7,117	17.53	40,596
25	Less: Deprec. Res.	(1,179,760)	(1,179,760)	-	0	(1,179,760)
26	Def. Taxes	(61,458)	(101,481)	40,023	(39.44)	(101,481)
27	Customer Deposit	-	-	-		-
28	Total Rate Base	991,665	883,743	107,922	12.21	883,743
29	Rate of Return	10.00%	10.00%			10.00%

APPENDIX E

**PINNACLES TELEPHONE COMPANY
NET-TO-GROSS MULTIPLIER
TEST YEAR 2004**

1	Gross revenue		1.00000
2	Uncollectible		0.00000
3	Net Revenues		1.00000
4	State Income Tax (Tax Rate times Ln. 3)	8.84%	0.08840
5	Federal Taxable Income (Ln 3. Less Ln 4.)		0.91160
6	Federal Income Tax (Tax Rate time Ln 5.)	34.00%	0.30994
7	Net Income (Ln 5. Less Ln 6.)		0.60166
8	Net-To-Gross Multiplier (Ln 1. Divided by Ln 7.)		1.66207

Intrastate Revenue Requirement

9	Adopted State Rate Base	883,743
10	Net Revenues adopted at 10.00% (Ln 9. Times 10%)	88,374
11	Net Revenue at Present Rates	40,171
12	Change in Net Revenues (Ln10. Less Ln 11.)	48,203
13	GROSS REVENUE CHANGE REQUIRED (Ln 12 time Ln 8.)	80,117

CHCF-A SUPPORT

14	2004 CHCF-A SUPPORT AT PRESENT RATES	157,173
15	Additional Amount for WorldCom Bankruptcy	4,395
16	2004 CHCF-A SUPPORT ADOPTED (Ln 13 add Ln 14, Ln 15)	241,685